

VZCZCXYZ5568
RR RUEHWEB

DE RUEHDBU #0338 0630652
ZNR UUUUU ZZH
R 030652Z MAR 08
FM AMEMBASSY DUSHANBE
TO RUEHC/SECSTATE WASHDC 0271
INFO RUCNCIS/CIS COLLECTIVE
RUCPDO/DEPARTMENT OF COMMERCE WASHINGTON DC 0009
RUEHNE/AMEMBASSY NEW DELHI 0045
RUEHIL/AMEMBASSY ISLAMABAD 0068
RUEHBJ/AMEMBASSY BEIJING 0035
RUEHBUL/AMEMBASSY KABUL 0091

UNCLAS DUSHANBE 000338

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DEPT FOR SCA/CEN, SCA/RA - LEO GALLAGHER, AND EEB/IFD/OMA - ANDREW
SNOW, RICHARD FIGUEROA

E.O. 12958: N/A
TAGS: [EAID](#) [ECON](#) [PREL](#) [TI](#)

SUBJECT: TAJIKISTAN - REPORT ON FISCAL TRANSPARENCY

Reftel: State 16737

11. Following is post's response to reftel tasking. Begin Text:

Transparency and accountability of government fiscal actions is poor in Tajikistan, and although the government has made efforts to improve this state of affairs since independence in 1991, progress is inconsistent. The Tajik economy is largely built on commodity production (aluminum and cotton), with a high level of state ownership in key industries. International assistance has been a key component in developing respect for and implementation of principles of transparency and accountability and the necessary frameworks for their implementation, but the impact of these efforts has been uneven, with the most success occurring at the local level and in certain ministries in Dushanbe.

Tajikistan has misreported its finances to the IMF repeatedly over the past several years. In the latest misreporting incident, in 2007 the Central Bank made incorrect assurances to the IMF that it had not made sovereign guarantees for private bank loans to fund investment in the unprofitable cotton sector. The beneficiaries of these guarantees are unknown. The President in response replaced the Central Bank Chairman and his deputies (moving some to other government posts) and agreed to make several reforms, inviting a staff monitoring program and audit of the Central Bank. The IMF will wait to see concrete results before instituting the new loan program Tajikistan has requested.

The national budget is not published in whole, although it is possible to obtain parts of it in very general form. Information on large parts of the budget, government debt, off-budget operations, tax revenue projections, and other major items is inaccurate or absent. Parliament is politically and institutionally very weak; it does not exercise effective oversight of the budget, neither seriously examining and debating government budget plans, nor effectively overseeing budget execution. The details of revenue from the Government's major source of income, the Tajik Aluminum Company, are closely held by the President, and details of Presidential spending are also hidden. The national budget included large unexplained "other expenses."

There are a variety of programs supported by the World Bank, the United States, and other donors to help Tajikistan improve fiscal planning, accountability and controls. These programs are focused on improving strategic planning processes, budget execution, and smoothing fiscal relations between different part of the government at the local and national levels. These programs have improved the capacity of the Ministry of Finance and other government departments. The banking sector also improved, thanks to U.S.

assistance. However, these efforts will likely continue to be challenging, given the inconsistency of commitment to and understanding of fiscal reform at the top levels of government.

Tajikistan has cooperated with the IMF to allow the IMF to report on the country's compliance with standards and codes of fiscal transparency. The last IMF report on this subject for Tajikistan, from January 2007, is posted on the IMF website.

End Text.

JACOBSON